2007-04805/

REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

HIGHLIGHTS

PREFACE

I am pleased to present my first Report to the House of Assembly. This Report includes the results of audit work completed between January 2006 and June 2006.

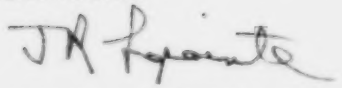
This Report is transitional, consisting of work begun prior to my appointment in March.

To give readers an appreciation of the more significant findings contained in my June 2006 Report, I publish this highlights volume. It provides a brief summary of the results of audit work included in the Report.

However, I suggest that those who may wish for a fuller understanding of any of these matters, refer to the full Report. The highlights volume notes the related page numbers of the full Report for each of the subjects.

To assist readers we have also included all 79 of the Report's recommendations in this highlights volume.

I and my staff seek to communicate our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete Report will be welcomed.



JACQUES R. LAPOINTE, CA•CIA
Auditor General

Halifax, Nova Scotia
June 16, 2006

TABLE OF CONTENTS

INTRODUCTION

1 Message from the Auditor General 1

GOVERNMENT-WIDE ISSUES

2 Government Financial Reporting 2
3 Government Systems and Controls 5

DEPARTMENT AUDITS

• • Community Services

4 Information Technology and Financial Controls 8

• • Office of Economic Development

5 Nova Scotia Research and Innovation Trust 11

• • Education

6 Atlantic Provinces Special Education Authority 13
7 Conseil scolaire acadien provincial 18
8 Strait Regional School Board 22

• • Health

9 District Health Authorities - Colchester East Hants, Cumberland & Pictou County 26
10 Payments to Physicians 29

• • Natural Resources

11 Sustainable Timber Supply 32

INTRODUCTION

Message from the Auditor General

Pages 3 – 7

1.1 As the Province's Auditor General, my goal is to improve accountability and the operation of government, to help provide better government for the people of Nova Scotia. As an independent officer of the House, I provide to the House, and to the public, assurance as to the integrity of government's financial reporting and assessments of the use of public funds and of the operations and performance of the public sector. I consider the needs of the public and the House, as well as practical realities facing management, in providing sound practical recommendations to improve the management of the public sector.

1.2 This report reflects this service approach.

1.3 I wish to acknowledge the valuable efforts of my staff who deserve the credit for the work reported here. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments, agencies, school boards and district health authorities during the course of our work.

1.4 The report presents the results of the Office's audits and reviews conducted this year at a number of departments and agencies as well as some comments on financial reporting and controls. Where appropriate, we make recommendations for improvements to government operations, processes and controls. Where departments or agencies have provided responses, they have been included. In future reports we will follow up on the implementation of our recommendations, with the expectation that significant progress will be made.

1.5 In conducting our audits, we noted three issues that may have broader applicability beyond the particular entities in which the issues emerged.

1.6 Firstly, in school boards, it appears that school-based funds may present a concern for management at most or all boards. The overall amounts of the funds involved, combined with what may be pervasive poor controls, may expose school boards to risks of financial loss and the chance of fraud. It would be prudent for all boards to examine their policies with respect to these funds and ensure that appropriate controls are in place.

1.7 Secondly, where agencies are managed by appointed CEOs, we have found that there can be a tendency for boards of directors to neglect their responsibilities to assess the performance of the CEO and keep him/her accountable to the board. Such a weakness in the organization's governance framework may have unpredictable consequences and is, in any event, poor practice. Governing boards may wish to examine their practices in this area.

1.8 Thirdly, examinations of information technology systems tend to reveal weaknesses in processes related to access and security. Such weaknesses can expose the systems to various forms of error and potential abuse. Managers of complex IT systems may wish to review their access controls to ensure they remain effective.

GOVERNMENT-WIDE ISSUES

Government Financial Reporting
Pages 10 - 21

2.1 The Auditor General's opinion on the 2006-07 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House

of Assembly on May 9, 2006 along with the government's budget documents. The opinion was qualified for the following:

- First, we were not able to obtain sufficient appropriate information to complete a review of recoveries, user fees and revenues of certain governmental units. As a result of this scope limitation, the Auditor General was unable to form an opinion as to the reasonableness of the estimates of these revenues or the support for their underlying assumptions.

- Further, sinking fund earnings and revenues of certain governmental units were excluded from the revenue estimates and included elsewhere in the estimates. As a result, the revenue estimates were not presented on a basis consistent with the Province's consolidated financial statements. In addition, certain recoveries and user fees were excluded from the revenue estimates and netted against expenses elsewhere in the estimates. To the extent of these exclusions, the 2006-07 revenue estimates are not presented in accordance with generally accepted accounting principles (GAAP).

2.2 A more detailed reporting of the results and observations from our examination of the government's 2006-07 revenue estimates included in the May 9, 2006 budget documents was provided to the Department of Finance in a management letter in June 2006.

2.3 A general election was called for June 13, 2006 before the 2006-07 budget tabled on May 9, 2006 was approved by the House. As a result, a 2006-07 budget will need to be tabled after the election. We will review and report separately on the revenue estimates for 2006-07 included in that budget.

2.4 The target deadline for providing our opinion on the Province's March 31, 2006 consolidated financial statements, for printing purposes, is September 21, 2006. The scheduled date assumes government will meet year-end accounting and audit readiness requirements.

2.5 Our preliminary planning and analysis has identified a number of issues to be addressed by government, relating primarily to compliance with GAAP. The most significant issues include:

- inclusion of comparative consolidated budget information on the financial statements, in particular on the statement of operations and accumulated deficit;
- reporting all revenues including user fees, recoveries and federal transfers, and expenses, on a gross basis, without netting revenues against expenses;
- accounting for a number of small government units previously not fully reflected in the consolidated financial statements; and
- accounting for various year-end spending initiatives approved by Treasury and Policy Board in March 2006.

2.6 While considerable progress had been made since 2000, further improvements are required in government's financial reporting to bring the government's budget and the Province's consolidated financial statements fully into compliance with GAAP.

2.7 As a result of audit work completed by this Office and by other auditors, significant internal control weaknesses have been identified in certain financial control areas which require management's attention (see Chapter 3).

2.8 Additional appropriations of $159.4 million for 2004–05 expenses were approved on December 20, 2005 by Order in Council 2005-572. No special warrants have been approved since our last Report. Based upon 2005-06 forecast information included in the May 9, 2006 budget documents, additional appropriations in excess of approximately $90.0 million will be required for 2005-06.

2.9 Our recommendations to government from this chapter are as follows:

Recommendation 2.1

We recommend that the revenue estimates included in the budget be prepared and presented in full accordance with generally accepted accounting principles.

Recommendation 2.2

We recommend that the consolidated financial statements be prepared and presented on a basis fully compliant with generally accepted accounting principles.

Government Systems and Controls

Page 22 – 44

3.1 Good systems and controls can be costly, while too many or less than optimal controls can also be costly. Government's challenge is to ensure that the risks of loss or misuse are appropriately identified and that decisions made about the level of control to be in place appropriately mitigate risks on a cost-benefit basis. The goal is not more or too many controls, but rather cost-effective optimization of control against risks. As a minimum, the nature and extent of controls should be sufficient and appropriate to

satisfy government's stated control objectives and thereby enable an unqualified opinion by the auditors on all of the control objectives.

3.2 The government has invested significant time and money in its corporate financial management and accounting systems. Recent audit results indicate that there are significant persistent fundamental control weaknesses that still need to be addressed.

3.3 An audit of application controls in the government's corporate financial management system (CFMS/SAP) identified several significant weaknesses, many of which have been previously reported.

3.4 The second independent service audit of the SAP Customer Competency Centre at the Department of Finance, reported in April 2006, once again contained a reservation of opinion based on the nature and extent of general computer environment control weaknesses identified. The Centre provides the infrastructure and processing environment for a variety of public sector entities and their SAP applications.

3.5 Both 2006 audits of the government's corporate financial management system (SAP) reported significant system and control weaknesses, many of which had been reported in prior years' audits.

3.6 The results of the annual independent audit of control procedures over processing on government's large mainframe computer systems provide reasonable, but not absolute, assurance on the adequacy of controls.

3.7 We are planning an audit of the SAP Human Resources (HR) module in the near future which will be reported in our December 2006 Report. The budget for the implementation of

the SAP HR module for the Province and the School Boards has escalated to $24.6 million from the original budget of $5.7 million.

3.8 Our recommendations to government from this chapter are as follows:

Recommendation 3.1

We recommend that management implement industry-recognized control best practices for SAP applications to address the weaknesses reported.

Recommendation 3.2

We recommend that management implement additional control techniques to remediate the identified weaknesses in the control standards adopted by management.

Recommendation 3.3

We recommend that management provide information relative to additional observations included in the auditors' Letter of Recommendations to all parties who were provided copies of the Section 5900 Report.

Recommendation 3.4

We recommend management implement controls to address reported weaknesses. Further, and as previously recommended in 2003, this process should include the implementation and regular monitoring of control best practices for all aspects of the SAP applications.

DEPARTMENT AUDITS
• • Community Services

Information Technology and Financial Controls

Pages 36 - 46

4.1 In January 2006 we completed a review of the general computer environment controls and an audit of controls over electronic funds transfers and information technology purchases at the Department of Community Services. This work represents the second phase of an assignment commenced in 2005. Phase one examined operations of the Department relating to income assistance and employment support, and child care centre licensing. Observations from phase one were reported in Chapter 6 of the December 2005 Report of the Auditor General.

4.2 Certain controls over the Department's general computer environment and electronic funds transfers for income assistance were adequate. However, we also identified significant control weaknesses which overshadow and erode the controls which we assessed as adequate. Accordingly, we concluded control in these areas is generally inadequate.

4.3 A number of the control weaknesses identified in this chapter pose a significant risk of financial loss or other negative consequences, either through fraudulent actions or error. We concluded there are inadequate compensating controls to address these significant weaknesses.

4.4 We identified inadequate monitoring of shared passwords and inappropriate computer access. Also, access rights of staff members who leave the Department were not canceled on a timely basis.

4.5 There are no computerized dollar limits

on electronic funds transfer transactions and no computerized edit checks on data sent to the bank for processing payments. Bank reconciliations are not being properly completed, and review and approval processes are not documented.

4.6 Information technology purchases are being properly approved, accurately recorded and are in accordance with Provincial procurement and accounting policies.

4.7 Our recommendations to government from this chapter are as follows:

Recommendation 4.1

We recommend the Department formally document significant policies and procedures relating to the use of information technology within the Department.

Recommendation 4.2

We recommend the Department review and update its information technology strategic plan to ensure it reflects changes in information technology and continues to meet Department and user needs. We also recommend an annual business or operational plan be prepared for the Information Technology Services section.

Recommendation 4.3

We recommend the Department develop performance outcomes, measures and targets for its Information Technology Services section and assess the performance of the section against these targets on a regular and timely basis.

Recommendation 4.4

We recommend the Department review user access rights to ensure they are limited to those necessary to effectively fulfill assigned job responsibilities. The Department should also ensure documentation related to access rights changes is completed and submitted to the Information Technology Services section on a timely basis. We further recommend that the Department monitor user activity on critical computer systems.

Recommendation 4.5

We recommend the Department implement computerized edit checks of electronic funds transfer data and a process to ensure reconciliations occur before the bank makes income assistance payments.

Recommendation 4.6

We recommend the Department modify its electronic funds transfer systems to set a limit on the size of individual electronic funds transfer payments.

Recommendation 4.7

We recommend the Department ensure the bank account is fully reconciled. In addition, reconciliations should be reviewed and approved and there should be documented evidence of the review and approval.

Recommendation 4.8

We recommend the Department formally document all policies and procedures related to its electronic funds transfers.

Recommendation 4.9

We recommend the Department or government enter into a formal agreement with the bank respecting the control the bank is expected to apply to electronic funds transfer data for income assistance recipients.

Recommendation 4.10

We recommend the Department examine its information technology purchase approval process and evaluate the necessity of having the current number of approvals.

• • Office of Economic Development

Nova Scotia Research and Innovation Trust

Pages 47 - 56

5.1 The Nova Scotia Research and Innovation Trust (NSRIT) is a fund established by the Province to support Nova Scotia research by providing funds for research infrastructure.

5.2 We reviewed NSRIT's policies and procedures for funding approval and noted that NSRIT relies on processes of the Canada Foundation for Innovation (CFI) for application review and requires applicants to submit copies of their CFI application and approval. CFI's approval process was outside the scope of this assignment. We examined ten project files at NSRIT and found no problems with documentation.

5.3 We reviewed NSRIT's monitoring of funding to research projects. There was no requirement for reporting of project status and outcomes to NSRIT. Recipients were not required to sign agreements with NSRIT regarding use of funds. We have made recommendations for

improvements in accountability, including requiring funding recipients to sign agreements and annual project reporting.

5.4 We assessed the Office of Economic Development's accountability structure with respect to NSRIT. OED does not have any requirement for periodic reporting from NSRIT regarding the success of NSRIT or achievement of project outcomes. We have recommended the establishment of annual reports and the provision of audited financial statements from NSRIT to OED to improve the accountability for Provincial funds provided through the Trust.

5.5 Subsequent to the completion of our fieldwork, management at OED informed us that a new Memorandum of Agreement is being drafted between OED and the Beneficiaries. They indicated that this agreement will include ongoing monitoring of projects and reporting back to NSRIT and the Province regarding success of projects. Although this draft agreement was outside the scope of our audit, we understand it is expected to be signed in 2006-07 and we encourage the parties involved to move this forward as soon as possible.

5.6 We assessed whether there was an adequate investment policy to ensure appropriate management of funds. We noted that NSRIT has no approved investment policy and recommended that one be established to ensure funds are invested appropriately.

5.7 Our recommendations to government from this chapter are as follows:

Recommendation 5.1

We recommend that the Office of Economic Development ensure there is adequate accountability to NSRIT and the Province for project funding

provided, whether the funds are disbursed by NSRIT or by OED directly. Improved accountability would be achieved by requiring funding recipients to sign agreements with specific requirements regarding use of funds, periodic reporting on project status at least annually, preparation of final project reports to show whether project outcomes were achieved, and review of project files by NSRIT or the Province to ensure compliance with the agreements. NSRIT should provide OED with annual audited financial statements for the Trust and annually report results of projects funded.

Recommendation 5.2

We recommend that recipients be required to provide proof of project expenses to verify expenses were within NSRIT approved parameters and that all funds received were expended on that project.

Recommendation 5.3

We recommend that NSRIT develop an investment policy to ensure appropriate management of NSRIT's funds.

• • Education

Atlantic Provinces Special Education Authority

Pages 57 - 85

6.1 This audit is the final phase of our examination of Special Education expenditures in the Province. We reported on the first two phases in Chapter 4 of our June 2005 Report. The Atlantic Provinces Special Education Authority (APSEA) is an inter-provincial co-operative agency established in 1975 by joint agreement among

the Ministers of Education of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island.

6.2 The legislation governing APSEA in Nova Scotia is outdated and does not reflect current operations. In addition, it does not link to the provincial Special Education policies.

6.3 The Board of Directors needs to improve certain aspects of its governance of APSEA.

6.4 Information provided for both financial and performance reporting needs to be improved. Information systems need to be updated to provide the information required by management and Board members to fulfill their responsibilities.

6.5 APSEA should expand its planning processes to include a long-term strategic plan and an annual business plan.

6.6 The high quality of services offered by APSEA was noted by consultants reporting to APSEA and one of the participating provinces. APSEA is following its policies in assessing student eligibility for services, preparing service plans, and developing itinerant teacher caseloads and schedules.

6.7 Itinerant teacher travel claims represent a significant expenditure for APSEA. The approval and monitoring process in this area should be improved.

6.8 An appropriate level of information regarding the costs of program and service delivery is required to adequately assess the effectiveness and efficiency of programs and services. For example, the costs per student by service or program area are not being tracked. The lack of readily available information limits APSEA's

ability to compare its operations to other models as well as monitor its own performance.

6.9 APSEA needs to perform a detailed analysis of its current service delivery model, including comparison against alternative models, to ensure that programs and services are being delivered with due regard for economy and efficiency. An internal review is underway and is scheduled to be completed in 2006.

6.10 Our recommendations to APSEA and government from this chapter are as follows:

Recommendation 6.1

We recommend that the Nova Scotia Department of Education pursue changes to both the Handicapped Persons' Education Act and the related inter-provincial agreement to ensure they reflect current APSEA operations.

Recommendation 6.2

We recommend that the APSEA Board improve its governance practices as follows:

- more frequent Board meetings; and
- cyclical review of policies to ensure they are current and include important areas such as conflict of interest and a code of conduct.

Recommendation 6.3

We recommend that the Board establish an annual performance evaluation process for the Superintendent which includes an assessment of performance against Board-approved performance targets and goals.

Recommendation 6.4

We recommend that the Board update the strategic plan for APSEA.

Recommendation 6.5

We recommend that the role and responsibilities of the Financial Advisory Committee be reviewed and clarified.

Recommendation 6.6

We recommend Trust Fund Committee members assess their information needs and obtain the required information from management. The APSEA Board should formally consider the current Trust Fund governance structure to determine whether alternate governance arrangements would improve the accountability to donors.

Recommendation 6.7

We recommend that APSEA's legislation be modified to include a requirement to report annually to the House of Assembly.

Recommendation 6.8

We recommend that APSEA management and the Board develop performance indicators and measures which include student outcomes, and establish an annual process for reporting progress.

Recommendation 6.9

We recommend that the BVI program model for reporting student outcomes, currently under

development, be adopted where appropriate in other areas of APSEA operations.

Recommendation 6.10

We recommend that management address the weaknesses in the student information system to ensure that requirements of users are met.

Recommendation 6.11

We recommend that APSEA management prepare an annual business plan for approval by the Board.

Recommendation 6.12

We recommend that APSEA management submit written support for all key budget assumptions and line items to the Board as part of the budget package.

Recommendation 6.13

We recommend that Provincial Supervisors approve itinerant teacher travel claims and that a process be established to assess the reasonableness of claims paid.

Recommendation 6.14

We recommend that APSEA determine its financial and operational information needs and ensure appropriate systems are put in place to meet those needs.

Recommendation 6.15

We recommend that APSEA conduct a detailed review

of its existing service delivery model to examine opportunities for cost savings and more efficient allocation of resources.

Conseil scolaire acadien provincial
Pages 86 - 106

7.1 The Conseil scolaire acadien provincial (CSAP) was created in 1996 to meet the needs of the Acadian and francophone population of Nova Scotia.

7.2 Our audit indicated that CSAP is well governed. We have made a few recommendations to strengthen certain aspects of operations and governance.

7.3 CSAP complies with applicable reporting requirements of the Education Act and Regulations.

7.4 CSAP's financial statement auditors issued a qualified audit opinion on the March 2005 financial statements due to their inability to audit school-based funds which were reported to total $757,238. This situation was similar to most other school boards in the Province. CSAP's audit opinion for 2005-06 will likely be qualified again since there has been no improvement in the controls over these funds. Our review of controls over school-based funds at two schools indicated that there are weaknesses. Each CSAP school has its own policies for control of school-based funds; there is no common policy. Management indicated that the inconsistency arose because the policies originated with predecessor school boards. The Conseil should establish a consistent policy for its schools and ensure that it is enforced.

7.5 In 2003-04, school-based funds were reported missing at one CSAP school. CSAP took

appropriate action and reported the matter to the RCMP. The missing amount was estimated to be approximately $12,000. This incident illustrates the risk associated with weaknesses in controls over school-based funds.

7.6 CSAP incurred deficits in the past. The accumulated deficit was $515,000 as at March 31, 2005. The Department of Education provided funding of $502,000 in March 2006 to eliminate the accumulated deficit.

7.7 CSAP's mandate is different from other school boards because it serves a minority and has legislated responsibilities related to the Acadian and francophone culture. Section 16 of the Education Act gives CSAP additional responsibilities including promotion of the Acadian culture and French language. The Province has not explicitly provided additional funding for this aspect of the mandate.

7.8 There are currently two separate student transportation systems, one for CSAP and one for the Regional School Board, in each region of the Province. There is generally no sharing of transportation arrangements among boards, although there are three separate arrangements affecting a total of approximately 550 students where CSAP students are transported by Regional School Boards or vice versa. The Department of Education has not formally analyzed the cost impact of two separate systems.

7.9 CSAP faces significant challenges in providing Province-wide services to a very dispersed student population. We believe that it is very important for CSAP to be accountable for achievement of due regard for economy and efficiency in the expenditure of public funds even though it uses a different language of operation, has a legislated mandate which differs from other school boards, and separate

governance. Achieving both the distinct mandate of providing services to a minority and economical administration is a challenge. Options for sharing services with other school boards should be formally considered and both cultural issues and related costs and benefits for the education system as a whole should be analyzed when decisions are made.

7.9 Our recommendations to the Conseil scolaire acadien provincial and government from this chapter are as follows:

Recommendation 7.1

We recommend the Conseil implement a formal, documented process for self evaluation.

Recommendation 7.2

We recommend that CSAP and DOE ensure signed, approved personal services contracts are in place before the employee begins work in the position.

Recommendation 7.3 (same as Recommendation 8.4)

We recommend that the Department of Education seek Executive Council approval for school board commercial activities as required under Section 64 (A) of the Education Act.

Recommendation 7.4

We recommend that CSAP establish a policy for school-based funds which applies to all schools. This policy should include requirements for appropriate internal controls and monitoring by CSAP's central office.

Recommendation 7.5

We recommend that CSAP require the contractor to provide proof that all contracted drivers have undergone criminal record and child abuse record checks prior to driving. CSAP should also review driver record abstracts for all drivers of contracted buses prior to driving.

Recommendation 7.6

We recommend that CSAP include the details for acquisition of taxi services in its future contracts for student transportation.

Recommendation 7.7

We recommend that CSAP require the contracted transportation service provider to provide an annual report on operations and copies of all safety-related reports relating to the contracted operations. CSAP should review this information for evidence of compliance with the contract, CSAP policies and legislation.

Recommendation 7.8

We recommend that the DOE, CSAP and RSBs make a concerted effort to consider shared services in order to achieve due regard for economy and efficiency while maintaining the importance of the cultural mandate. CSAP should formally analyze both the cultural factors and costs of sharing versus stand-alone options and attempt to minimize costs when making decisions.

Strait Regional School Board
Pages 107 - 125

8.1 This was our first audit of the Strait Regional School Board (SRSB). In November 2001 the Province contracted PricewaterhouseCoopers to conduct a forensic audit at the SRSB due to allegations of irregular financial transactions and contractual commitments. The resulting report from the forensic audit raised concerns of significant financial mismanagement. In April 2002 the Province revoked the regional status of the SRSB. A pilot structure was created where an elected District Board was responsible for governance of the education system and support services were provided to the District Board by the Province through a Regional Board. In August 2004 the Province made changes to the Education Act and Regulations which returned the Strait District Board back to regional status with all the same authorities and responsibilities as other Regional School Boards.

8.2 Most areas we examined were governed and managed appropriately. We made recommendations to strengthen certain aspects of operations and governance.

8.3 The SRSB approves an annual budget and business plan consistent with the requirements of the Department of Education. There is no formal system to monitor progress on all goals, priorities and performance measures included in the business plan. However, we acknowledge that the Board actively monitors certain important initiatives such as student performance and staffing.

8.4 The Department of Education has made changes to the Education Act respecting senior management pay scales and commercial activity designed to help promote consistency in all

school boards in the Province. We believe the Department needs to seek Executive Council approval for commercial activity and establish appropriate pay scales for all non-unionized staff.

8.5 The SRSB has established a process for the annual evaluation of the Superintendent's performance. We have noted areas where this process could be improved including use of measurable performance criteria and targets.

8.6 SRSB management created procedures and a process to monitor school-based funds at the school level. We noted some exceptions to recommended procedures at the two schools we visited.

8.7 The SRSB needs to develop a policy which details the requirements for criminal and child abuse record checks for bus drivers and other Board staff and the action to be taken if issues are found. The current practice of SRSB is to perform checks for new employees only and is consistent with a decision made by the Department of Education and Regional School Boards.

8.8 SRSB should investigate the potential for significant fuel cost savings through purchase of fuel from Department of Transportation and Public Works facilities throughout the Strait region. Our audit work identified significant savings in the one area where such purchases had been implemented.

8.9 The SRSB needs to strengthen its process for monitoring fuel consumption to help ensure detection of any inefficient or inappropriate use.

8.10 Our recommendations to Strait Regional School Board and government from this chapter are as follows:

Recommendation 8.1

We recommend that the Board ensure that management regularly reports progress against all goals, priorities and performance measures detailed in the annual educational business plan.

Recommendation 8.2

We recommend that important information such as budget assumptions and calculations as well as the link between the business plan and the budget be formally documented and provided to the Board.

Recommendation 8.3

We recommend that the Department of Education and RSBs establish salary guidance for all non-union staff at Regional School Boards.

Recommendation 8.4

We recommend that the Department of Education seek Executive Council approval for school board commercial activities as required under Section 64 (A) of the Education Act.

Recommendation 8.5

We recommend that annual performance expectations for the Superintendent should be clearly defined and include measurable performance targets.

Recommendation 8.6

We recommend that the SRSB update its travel policy to improve documentation supporting expense claims.

Recommendation 8.7

We recommend the Board update its policy on performance of child abuse and criminal record checks to clearly state action to be taken if risks are identified.

Recommendation 8.8

We recommend that SRSB establish a process to ensure that all required documents supporting the use of private conveyors are received and appropriately reviewed.

Recommendation 8.9

We recommend that the Board, in cooperation with DOE and other Regional School Boards, establish a formal process to monitor garage and body shop operations against approved efficiency standards.

Recommendation 8.10

We recommend that SRSB develop and implement a policy with respect to fuel storage tanks and ensure current practices comply with legislation.

Recommendation 8.11

We recommend that SRSB and DOE continue to investigate opportunities for the purchase of fuel from DTPW facilities.

Recommendation 8.12

We recommend that SRSB strengthen its procedures for monitoring fuel consumption and use.

District Health Authorities - Colchester East Hants (CEHHA), Cumberland (CHA) & Pictou County (PCHA)
Pages 126 – 146

9.1 This was our first audit of these three DHAs. We audited the predecessor Northern Regional Health Board in 1999.

9.2 The District Health Authorities have adequate financial management processes at the management and Board levels, although we did recommend certain improvements.

9.3 The Department of Health should approve DHA business plans and funding levels on a more timely basis as required by the Health Authorities Act. We support the Department's efforts to redesign the business planning and DHA funding processes to achieve more timely approval for the 2006-07 fiscal year.

9.4 CEHHA should improve its systems for reporting and monitoring nursing overtime. We did not audit these systems at the other two DHAs.

9.5 The DHAs should improve policies related to travel claims.

9.6 The DHAs should improve compliance with procurement policies for the acquisition of professional services which fall below the thresholds where public tendering is required.

9.7 Our recommendations to the three District Health Authorities and government from this chapter are as follows:

Recommendation 9.1 (repeated from June 2004 Report)

We recommend that business plans should receive Governor in Council and Department of Health approval prior to commencement of the fiscal year.

Recommendation 9.2 (repeated from 2002 Report)

We recommend that the Department of Health establish and implement a funding formula to rationalize funding allocations to DHAs.

Recommendation 9.3

We recommend that CHA and PCHA develop written policies and procedures requiring periodic monitoring and forecasting.

We also recommend that CHA and PCHA financial reports be modified to include a comparison between the budget for the year and a current forecast of results to year end, and written analysis of variances.

Recommendation 9.4

We recommend that the Finance/Audit Committee for each DHA include at least one professional accountant or person with recognized financial expertise.

Recommendation 9.5

We recommend performance standards be included in the agreements for all shared services. Performance standards and reporting on achievement should also be required for financial services divisions.

Recommendation 9.6

We recommend the DHAs address the recommendations made by the external auditors and the external consultant concerning information systems security.

Recommendation 9.7

We recommend that DHAs clarify and strengthen travel policies by requiring:

- submission of original supporting invoices rather than signed credit card vouchers;
- identification of the people for whom meals are claimed;
- review and approval of CEOs' travel expenses by the Chair of the Board; and
- signature of the claimant on all travel claim forms.

Recommendation 9.8

We recommend compliance with the requirements of the ASH Sector Procurement Policy including competitive processes for all procurements. All exemptions should be appropriately approved and documented.

Recommendation 9.9

We recommend implementation of workload measurement systems for better scheduling of nursing resources. We also recommend improvement in the information systems relating to the summary reporting of causes for overtime.

Payments to Physicians
Pages 147 - 165

10.1 The 2005 agreement between the Province and Medavie Inc. for administration of the Medical Services Insurance Plan is a major improvement over the one it replaced. For example, Medavie is now required to provide annual audited financial statements of Medical Services Insurance program costs to the Department of Health. This represents a significant improvement in accountability for this major government program area.

10.2 Approximately 55% of physicians in the Province are paid solely under a traditional fee-for-service arrangement. Certain physicians, primarily specialists, have opted to be paid on an alternate funding basis (entirely fixed fee or a combination of fixed fee and fee-for-service). In 2004-05, the Province made payments under alternative funding arrangements totaling $178.2 million. In 1999-2000, when we last audited Alternative Funding, the payments totaled $85.3 million. In the last five years, the cost of alternative funding arrangements more than doubled.

10.3 In April 2006, the Labour Relations Committee of Executive Council accepted the general direction of a new framework for physician alternative funding arrangements proposed by the Department of Health. The proposed framework incorporates improvements in accountability and a blended compensation base including fee-for-service for clinical work and a fixed component for non-clinical activities. Previous alternative funding arrangements generally did not include a significant fee-for-service component. As at the time of writing this Report, no alternative funding agreements had yet been signed under the new framework but negotiations were in progress.

10.4 We examined a sample of existing alternative funding agreements and concluded that there was a general lack of accountability. The deliverables have not been well defined in certain contracts, the contracts generally lack strong reporting requirements and the documentation included in the negotiation files needs to be improved.

10.5 All new and renewed alternative funding contracts must receive Executive Council approval as required under Section 59 of the Provincial Finance Act. The Department was only able to provide such approvals for three of the eleven contracts in our sample. The Department of Health should ensure that all contracts receive Executive Council approval and documentation of the approvals should be maintained to preserve a trail for management and auditors.

10.6 Nova Scotia's approach to physician compensation continues to evolve. We encourage the Department to proceed with implementation of the new framework in a manner which achieves appropriate accountability for the expenditure and due regard for economy and efficiency.

10.7 In 1997, the Department of Health decided to pay physician services claims for patients with expired health cards which compromises the effectiveness of the beneficiary registration process and increases the risk of paying claims related to ineligible patients. In 2003, we recommended that the Department of Health review the risks of accepting expired health cards and implement appropriate controls. No action has been taken on our recommendation.

10.8 We tested the controls surrounding the registration process for providers of health services and found them to be adequate.

The Department of Health's written policies governing the provider registration process do not reflect current practices and should be updated.

10.9 Our recommendations to government from this chapter are as follows:

Recommendation 10.1

We recommend that the Department of Health revise its policies for physician alternative funding arrangements to reflect current practice.

Recommendation 10.2

We recommend that all alternative funding agreements be approved as required by Section 59 of the Provincial Finance Act and that the Department of Health retain documentation relating to such approvals.

Recommendation 10.3

We recommend that the Department of Health proceed with its plans to implement a new framework for alternative funding arrangements. The agreements should include specific deliverables and accountability provisions for measuring whether deliverables have been achieved.

Recommendation 10.4 (repeated from 2003)

We recommend that the Department of Health conduct a detailed analysis of the risks and benefits associated with the payment of claims for expired health cards and that appropriate controls and procedures be implemented.

Recommendation 10.5

We recommend that the Department of Health and Medavie monitor the gap between the number of registered beneficiaries and the Province's population and provide an explanation of variances.

Recommendation 10.6

We recommend that the Department of Health update its provider registration policies and communicate them to Medavie.

Natural Resources

Sustainable Timber Supply

Pages 166 - 178

11.1 In December 2005 we completed a review of the Department of Natural Resources' programs and processes related to its role in helping to ensure a sustainable timber supply.

11.2 The level of assurance provided on the findings and conclusions in this chapter is less than for an audit (i.e., a review provides moderate assurance while an audit provides high assurance). This is because of the type of work we performed. Our evidence was based on management representations and review of applicable documentation. We did not test controls to determine if they operated as described to us.

11.3 There has been no regular, comprehensive public reporting relating to sustainable forestry in Nova Scotia. The Department should implement its goal of issuing a state of the forest report on a periodic basis.

11.4 In 1986, the Department set a goal of "doubling of forest production by the year 2025." Information presented to us indicates that the goal has been achieved, in approximately half the planned time. We are also aware that the Department has concerns about the sustainability of softwood harvests on private lands. The Department has not publicly reported progress in achieving this goal, nor provided an assessment of whether the increase in production is one cause of its concerns about sustainability.

11.5 The Department follows a regular annual and long-range planning process for timber supply sustainability.

11.6 The Department has appropriate processes and procedures to monitor and control silviculture on private and crown land. However, we noted the Department was not receiving audit reports from one licensee of crown lands as had been previously agreed upon.

11.7 The Department should review the investment practices of the special funds it administers and publicly report financial information related to the funds on a regular basis.

11.8 During our review, we observed no instances at the Department of inadequate planning, monitoring and enforcement systems to regulate the sustainability of the timber supply in Nova Scotia.

11.9 Our recommendations to government from this chapter are as follows:

Recommendation 11.1

We recommend the Department prepare and issue a state of the forests report as soon as practical. The report should address progress relating to the purposes noted in the Forests Act.

Recommendation 11.2

We recommend the Department include long-term comparative and trend information in its proposed state of the forest report and/or on its website.

Recommendation 11.3

We recommend the Department regularly report on progress toward significant sustainable forestry goals and objectives.

Recommendation 11.4

We recommend the Department prepare and publicly report formal responses to significant studies performed on its behalf, indicating whether recommendations are accepted or rejected. Further, progress in implementing accepted recommendations should be reported.

Recommendation 11.5

We recommend the Department regularly report progress towards each of its significant integrated resource management goals and objectives.

Recommendation 11.6

We recommend the Department establish performance measures relating to sustainable forestry on both private and crown land, and report progress towards forest sustainability on a regular basis.

Recommendation 11.7

We recommend the Department check all silviculture

claims for mathematical accuracy.

Recommendation 11.8

We recommend that the Department analyze activity in its special funds, project future fund cash flows, and advise the Department of Finance to invest the funds accordingly.

Recommendation 11.9

We recommend the Department annually report balances and financial activity in the special funds it administers.

Recommendation 11.10

We recommend the Department monitor harvesters' stumpage remittances to ensure they are received on a timely basis.